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DYNAMIC ANALYSIS OF THE LOCAL GOVERNMENT REVENUE GENERATION OF PADANG CITY BEFORE AND AFTER THE REGIONAL AUTONOMY

Abstract

This research focused on the analysis of the presence or absence of the flypaper effect on the realization of the Padang City Government's APBD before and after regional autonomy. Used data study began from 1980 until 2018 of Badan Pusat Statistik Padang city. Analysis data used the regression analysis. The result are 1) DAU, Investment, Regional autonomy policy, and Population Growth has a significant effect on Padang City Tax PAD. 2) DAU has a significant effect on Padang City's Non-Tax PAD. 3) Investment and Regional autonomy has no significant effect on Padang City's Non-Tax PAD. 4) Population growth has a significant effect on Padang City's Non-Tax PAD. 5) Tax PAD and Non-Tax PAD has a significant effect on Regional Spending.) No flypaper effect occurs on regional expenditure on the realization of the Padang City Regional Budget.

Keywords: Tax, Non Tax PAD, Regional autonomy, DAU, Regional Spending, Flypaper Effect

1. Introduction

The implementation of regional autonomy which has entered its two decades of implementation has made the community demand for the government to provide optimal services by promoting transparency in the historic momentum called "reform". At that moment there were various major changes in the practice of services and authority between the center and the regions. If before the reform period (New Order) used a centralized system, then the reform would actually give birth to a system that was the opposite (decentralized) with the birth of the policy of "regional autonomy".

In Law no. 9 of 2015 concerning Regional Government and Law no. 33 of 2004 concerning financial balances between the central government and regional governments, it has been regulated that government revenues consist of Original Regional Revenues, Balancing Funds and others that are legal. Regional autonomy gives freedom to each region to take care of the affairs of their respective regions. Local governments are required to collect local taxes and levies wisely. In addition, the allocation of the results of regional tax revenues and regional levies must be fair and equitable. In order to increase the financial capacity of the region in order to carry out autonomy, the government implemented various tax policy changes to Law No. 18 of 1997 concerning Regional Taxes and Regional Retribution. The granting of authority in the imposition of regional taxes and levies, is expected to further encourage the Regional Government to continuously strive to optimize Local Revenue, especially those originating from regional taxes and levies (Sidik, 2002).

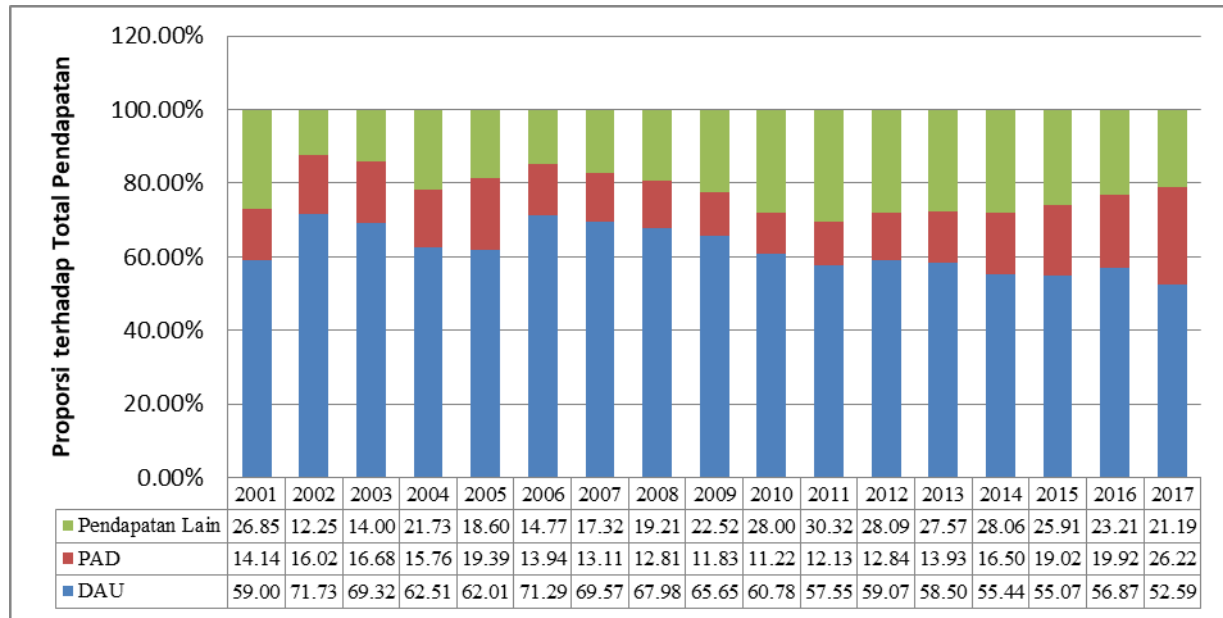


Fig 1. Proportion of Realization of Padang City Revenue in 2001-2017 Against Total Revenue

PAD of Padang city from 2001-2017 has always experienced an increase, seen in the Fig 1. above. However, the increase in PAD in each year does not have a significant impact on efforts towards regional independence as evidenced by the proportion of the DAU to the total revenue of the Padang City Government which is still in the range of 52.59% to 71.73%, which means that dependence on the Central Government from DAU acquisition still very high every year. Therefore, efforts are still needed to increase independence by paying attention to PAD. Among them is to pay attention to various factors that are considered to affect regional income. This study seeks to examine the main factors that are considered to affect the income of Padang City.

In connection with the management of PAD and regional expenditure, Kuncoro (2004) concludes that PAD is only able to finance local government spending at a maximum of 20%. This fact has led to asymmetric behavior in local governments, which can be seen from the indication of inefficiency in the transfer of funds, and can be seen from the response to government spending, better known as the flypaper effect. Added by Ndadari and Adi (2008), the comparison of the use of balance funds (DAU, DAK, and DBH) against regional revenues is still too high compared to other regional revenues, including PAD.

Various factors can be identified that can affect Local Revenue (PAD) including tax revenue and revenue sharing from the central government, unemployment and the level of fiscal decentralization (Maličká et.al. 2012); Development Expenditures, Population Amounts, GRDP (Purbayu and Retno, 2005 Oktavina 2012 and Gomes et.al., 2013) and government policies, emphasizing the effectiveness and reliability of the tax assessment collection system (Sorsa and Rao, 2017). In this study, the focus will be on the DAU, investment and population growth factors towards regional revenue consisting of Regional Tax and Non-Tax Revenue Post. The analysis also focused on the analysis of the presence or absence of the flypaper effect on the realization of the Padang City Government's APBD before and after regional autonomy.

2. Literature Review

2.1. Regional Autonomy

According to Law No. 23 of 2014 concerning Regional Government, "Regional autonomy is the right, authority and obligation of autonomous regions to regulate and manage their own government affairs and the interests of local communities in accordance with statutory regulations". From this understanding, it can be interpreted that regional autonomy is independence or freedom to determine their own rules based on legislation, in meeting regional needs in accordance with the potential and capabilities of the region.

Regional autonomy that has been running for more than twenty years is expected not only to transfer authority from the center to the regions to shift power. This was confirmed by Kaloh (2002), that regional autonomy must be defined as autonomy for the people of the region rather than "regional" autonomy in the sense of a particular territory / territory at the local level. Regional autonomy is not only a delegation of authority but also an increase in community participation in regional development.

Thus decentralization, deconcentration, and co-administration always appear together in the history of the implementation of regional autonomy in Indonesia, both in the new order through Law No. 5 of 1974, and during the reform order through Law 22 of 1999 and revised with Law no 32 of 2004 and Law No.23 of 2014.

2.2. General Allocation Fund (DAU)

The General Allocation Fund is one of the transfer funds originating from the expenditure budget (APBN) which is allocated with the aim of increasing the equitable distribution of financial capacities between regions to fund regional needs in the context of decentralization (Yani and Ahmad, 2007: 142). The General Allocation Fund (DAU) according to Law No.25 of 1999 comes from the APBN and is allocated with the aim of equitable distribution of financial capacity between regions to finance their expenditure needs in the context of the implementation of Decentralization. DAU is stipulated at least 25% (twenty-five percent) of the Domestic Revenues stipulated in the State Budget. Then, from 25% it is further divided into 90% for DAU for Regency / City areas and 10% for DAU for Provincial areas. As previously stated, DAU acts as a block grants transfer

2.3. Local Government Revenue Generation (PAD)

According to Law No. 33 of 2004 Regional Original Revenue (PAD) is revenue that is obtained from the region which is collected based on regional regulations in accordance with statutory regulations, consisting of:

a. Tax PAD

According to Law No. 28 of 2009, local taxes, hereinafter referred to as taxes, are mandatory contributions to regions that are owed by individuals or entities that are coercive based on the Law, with no direct compensation and are used for the purposes of the Region for the greatest prosperity of the people.

b. Non Tax PAD

1) Regional Retribution

According to Law No. 28/2009 in total there are 30 types of user fees that can be collected by regions which are grouped into 3 groups of levies, namely public service fees, business service fees and certain licensing fees.

2) The revenue from separated regional assets.

Law No. 33 of 2004 classifies the types of results of the management of separated regional assets, broken down according to the object of income which includes the share of profits on equity participation in regionally-owned companies / BUMD, the share of profits on equity participation in state-owned / BUMN companies and the portion of profits on equity participation in a company owned. private or community groups.

3) Other legitimate Local Government Revenue

According to Law No. 33/2004, it explains about legitimate Local Government Revenue, provided to budget regional revenues that are not included in the type of local tax, and the results of the management of separated regional assets.

2.4. Investment

Investment is the demand for goods and services to create or increase production capacity / income in the future (Dornbusch, Fisher and Startz, 2008). Investment includes two main objectives, namely to replace part of the supply of damaged capital (depreciation) and additional provision of existing capital (net investment). In the calculation of national income, investment is the whole value of the purchase of entrepreneurs on capital goods and expenditures to establish industry and the increase in the value of the stock of unprocessed and finished goods.

2.5. Flypaper Effect

The flypaper effect has implications where one of them will increase regional government spending is greater than the revenue of the region itself (Turnbull, 1998: 18) as well as the tendency to wait for assistance from the center compared to managing regional resources themselves. Implicitly there are several implications of the occurrence of the flypaper effect on district / city regional spending, such as:

1. Causing the fiscal gap (Fiscal gap) will remain. Fiscal gap is a central government policy framework in providing DAU to the regions, so if a flypaper effect occurs, it means that the achievement of transfer funds is less than optimal. This can be seen in the analysis of the development of DAU and regional expenditure.
2. Leads to inaccuracies in the use of sources of income generating growth in PAD, such as increased local tax revenue, as well as other natural resources. This can be seen from the proportion of the average ratio of DAU and PAD, where the average proportion of DAU is greater than the PAD which only contributes 10 percent of regional expenditure.
3. Causing the element of regional dependence on the central government to remain, because it directly provides DAU to the regions which means the central government subsidizes regional expenditure to reduce the burden of financing, so that it will weaken the region's ability to finance its own needs.

4. There is an excessive response in the utilization of transfer funds where the central government should make the performance of monitoring and evaluation of local governments in order to monitor, control and evaluate the use of DAU funds, this is needed to prevent excessive response in exposing DAU revenue in the regions.
5. Resulting in a lack of regional financial independence in the district / city concerned (Walidi, 2009: 35).

Roemer and Silvestre (2000) argue that the flypaper effect can generally be understood as the inequality of the effect of public expenditure from central government assistance and an increase in revenue by the same amount. Whatever the central government assistance to the regional government must have the same effect. An example is that every rupiah issued by the central government as assistance to local governments, should have an equal effect of one rupiah to an increase in government or local community income. If this does not happen, where there is a tendency that the influence of public expenditure in the form of central government assistance to regional governments does not have the same effect, this is called the flypaper effect.

Based on the explanations of the theories above, local government revenue in this study is influenced by DAU, population growth, regional autonomy policy and investment. To see the relationship between various variables above, it will be shown in the form of a conceptual framework in the following figure:

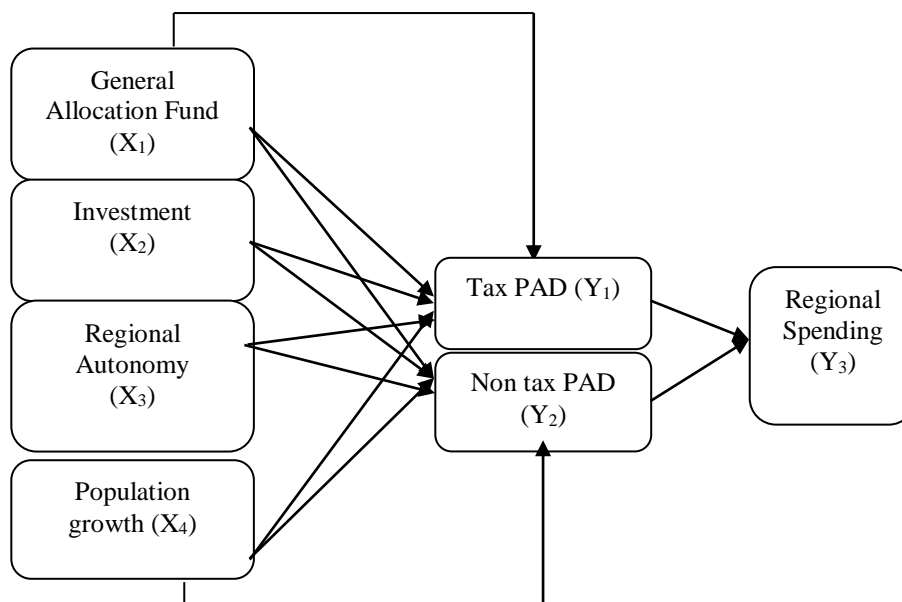


Fig 2. Conceptual Framework

Based on the conceptual framework, a hypothesis can be found which is a temporary answer to the problem that will be discussed through this research.

The hypotheses proposed are as follows:

- H.1. DAU has a significant effect on PAD Padang City Tax
- H.2. Investment has a significant effect on Padang City's PAD
- H.3. Regional autonomy policy has a significant effect on PAD Padang City Tax
- H.4. Population growth has a significant effect on PAD Padang City Tax
- H.5. DAU has a significant effect on PAD Not Padang City Tax
- H.6. Investment has a significant effect on PAD Not Padang City Tax
- H.7. The policy of regional autonomy has a significant effect on Padang City's Non-Tax PAD
- H.8. Population growth has a significant effect on Padang City's Non-Tax PAD
- H.9. Tax PAD has a significant effect on Regional Spending in the City of Padang
- H.10. Non-tax PAD has a significant effect on Regional Spending in the City of Padang
- H.11. Flypaper effect occurred in Padang City Regional Budget

3. Methodology

This research is classified as descriptive and associative research. Descriptive research is research that aims to describe or explain a thing as it is. While associative is research that aims to see the relationship between independent variables

This research is also an expo facto that is research that is to find out what causes something to happen and sort back so that the factors known to cause.

The data in this study are in the form of time series data. Data on all variables in this study began from 1980 until 2018 in the city of Padang.

Data analysis method is used to analyze the data obtained in order to determine the effect of independent variables on the dependent variable or to determine the effect of the General Allocation Fund (DAU, Investment, Population Growth, and Autonomy Policy on Regional Original Revenue (PAD)), and to determine the effect of Original Revenue Regional (PAD) from Tax and Regional Original Revenue (PAD) is not a Tax on Regional Spending in Padang City Before and After the Implementation of Regional Autonomy (1980-2018) Data analysis used in this study uses regression analysis

The general form for the regression equation above is:

$$Y1=f(X1, X2, X3, DUMMY)$$

$$Y1 = \beta_0 + \beta_1X1 + \beta_2X2 + \beta_3X3 + \beta_4DUMMY + \mu_i$$

$$LN(Y1)= \beta_0 + \beta_1(LN(X1)) + \beta_2(LN(X2)) + \beta_3X3 + \beta_4DUMMY + \mu_i$$

where:

LN(Y1) = Tax PAD

LN(X1) = General Allocation Fund

LN(X2) = Foreign and Regional Investment

X3 = Population Growth (%)

DUMMY = Regional Autonomy Policy

The assumptions for determining the occurrence of the flypaper effect in this study focus on the comparison of the effect of PAD and balance funds (DBH, DAU and DAK) on Regional Expenditures. Melo (2002) and Venter (2007) state that the flypaper effect occurs if the influence (coefficient value) of DAU on regional expenditure is greater than the influence (coefficient value) of PAD on Regional Expenditure, and the value of both is significant

4. Results and Analysis

4.1. Descriptive Statistic Analysis

The object of this study is the Government of the City of Padang, West Sumatra. The data examined are economic (financial) ratio data, including the General Allocation Fund (DAU), investment (PMDN and PMA), Population Growth, Regional Allocation Revenue (Tax and Non-Tax), and Regional Expenditure in the period before implementation Regional autonomy (1980-1999) and after the implementation of regional autonomy in Padang City (2000-2018). The results of the descriptive statistical analysis before the implementation of regional autonomy can be fully seen in table 1 below.

Table 1. Descriptive Statistics of Regional Expenditures, DAU, Investment, Population Growth, PAD, and Regional Spending in Padang City Government Before Regional Autonomy

Descriptive Statistic	DAU (Million Rupiah)	Investment (Million Rupiah)	Population Growth (%)	Tax PAD (Million Rupiah)	Non Tax PAD (Million Rupiah)	Regional Spending (Million Rupiah)
Mean	3772.574	20630.32	1.726800	5491.190	3201.677	115647.3
Median	1658.620	7187.625	1.773500	4905.331	2824.216	97428.24
Maximum	14595.53	215037.1	1.980000	15581.86	9136.907	214718.8
Minimum	447.3779	850.8000	1.348000	1333.821	1050.130	92112.77
Std. Dev.	4105.364	47430.31	0.201946	3716.223	2137.538	36911.42

Source: Data Processing Results, 2019

From Table 2. it can be seen that the average General Allocation Fund (DAU) in the Regional Government of Padang City prior to the implementation of regional autonomy (in 1980-1999) was Rp. 3,772,574,000 and a standard deviation of Rp. 4,105,364,000. The average level of investment in Padang City reaches 20,630,320,000 and the standard deviation is 47,430,310,000, the average Regional Original Income (PAD) from Padang City Tax reaches Rp. 5,491,190,000 and a standard deviation of Rp. 3,716,223,000. The average of Local Original Revenue (PAD) instead of Padang City reached Rp. Rp. 8,647,260,000 and a standard deviation of Rp. 5,889,451,000. The average expenditure of the City of Padang reaches Rp. 115,647,300,000 and standard deviations of Rp. 36,911,420,000.

Table 2. Descriptive Statistics of Regional Expenditures, DAU, Investment, Population Growth, PAD, and Regional Spending in Padang City Government After Regional Autonomy

Descriptive Statistic	DAU (Million Rupiah)	Investment (Million Rupiah)	Population Growth (%)	Tax PAD (Million Rupiah)	Non Tax PAD (Million Rupiah)	Regional Spending (Million Rupiah)
Mean	643186.9	385340.6	1.541136	65287.07	123245.1	1096640.0
Median	628472.6	123131.0	1.838000	40933.20	76795.69	996418.4
Maximum	1120046.	2745717.	2.263167	220736.6	348898.1	2177973.
Minimum	12980.35	165.0000	-3.458291	11092.97	8125.794	241983.3
Std. Dev.	367101.6	662243.8	1.259420	57768.30	102490.2	692169.1

Based on table 2 above it can be seen that the average General Allocation Fund (DAU) of Padang City after the implementation of regional autonomy (in 2000-2018) is Rp. 643,186,900,000 and standard deviation of Rp. 367,101,600,000. The average investment level in Padang City reaches Rp. 385,340,600,000 and standard deviation of Rp. 662,243,800,000. the average population growth rate in Padang City reached 1.541136% and the standard deviation of 1.259420%. Average Local Own Revenue (PAD) from Padang City Tax reaches Rp. 65,287,070,000 and a standard deviation of Rp. 57,768,300,000. The average of Local Original Revenue (PAD) instead of Padang City reached Rp. Rp. 123,245,100,000 and standard deviation of Rp. 102,490,200,000. The average expenditure of the City of Padang reaches Rp. 1,096,640,000,000 and a standard deviation of Rp. 692.169.100,000

4.2. Multiple Regression Analysis

Samples of data that have been collected and compiled are then performed calculations to get an appropriate estimation model and hypothesis testing regarding the influence of the General Allocation Fund (DAU), Investment, Population Growth, and Autonomy Policy on Local Revenue (PAD) Taxes before and after the implementation of regional autonomy ; the influence of the General Allocation Fund (DAU), Investment, Population Growth, and Autonomy Policy on Regional Original Revenue (PAD) instead of Tax before and after the implementation of regional autonomy; and the influence of the General Allocation Fund (DAU), Regional Original Revenue (PAD) Tax, Regional Allocation Revenue (PAD) instead of Tax on Regional Spending before and after the implementation of regional autonomy.

The results of multiple regression analysis are as follows:

Table 3. Multiple Regression Analysis

Dependent Variable	Independent Variable	Coefficient	Prob.	Adjusted R-squared	Prob (F-statistic)
Y1	X1	0.519	0.000	0.9305	0.000
	X2	0.056	0.111		
	X3	0.395	0.054		
	DUMMY	-0.479	0.005		
	C	9.769	0.000		
Y2	X1	0.567	0.000	0.9795	0.000
	X2	0.030	0.246		
	X3	0.477	0.003		
	DUMMY	-0.116	0.636		
	C	8.800	0.000		
Y3	X1	0.031	0.023	0.9996	0.000
	Y1	0.522	0.000		
	Y2	0.448	0.000		
	C	0.657	0.001		

Based on the above table, the regression equation can be arranged as follows:

$$Y1 = 9.769 + 0.519.X1 + 0.056.X2 + 0.395.X3 - 0.479.DUMMY$$

$$Y2 = 8.800 + 0.567.X1 + 0.030.X2 + 0.477.X3 - 0.116.DUMMY$$

$$Y3 = 0.657 + 0.031.X1 + 0.522.Y1 + 0.448.Y2$$

Where

X1 = General Allocation Fund

X2 = Foreign and Regional Investment

X3 = Population Growth (%)

DUMMY = Regional Autonomy Policy

Y1 = Tax PAD

Y2 = Non Tax PAD

Y3 = Padang City Regional Spending

Analysis of acceptance or rejection of hypotheses based on the probability of the multiple regression t test in table 3. can be summarized as follows:

Hypothesis		Prob.	Description
H.1.	DAU has a significant effect on PAD Padang City Tax	0.000	Accepted
H.2.	Investment has a significant effect on Padang City's PAD	0.111	Rejected
H.3.	Regional autonomy policy has a significant effect on PAD Padang City Tax	0.005	Accepted
H.4.	Population growth has a significant effect on PAD Padang City Tax	0.054	Rejected
H.5.	DAU has a significant effect on PAD Not Padang City Tax	0.000	Accepted
H.6.	Investment has a significant effect on PAD Not Padang City Tax	0.246	Rejected
H.7.	The policy of regional autonomy has a significant effect on Padang City's Non-Tax PAD	0.636	Rejected
H.8.	Population growth has a significant effect on Padang City's Non-Tax PAD	0.003	Accepted
H.9.	Tax PAD has a significant effect on Regional Spending in the City of Padang	0.000	Accepted
H.10.	Non-tax PAD has a significant effect on Regional Spending in the City of Padang	0.000	Accepted

While the analysis of acceptance or rejection of hypothesis 11 is conducted according to the opinion of Melo (2002) and Venter (2007) states that the flypaper effect occurs when the influence (coefficient value) of DAU on regional expenditure is greater than the influence (coefficient value) of PAD on Regional Expenditure, and the value both are significant.

Table 4. Shows that both Regional Original Revenue from Tax, Regional Non-Tax Revenue and DAU both have a significant influence on expenditure as indicated by prob. <0.05. However, the DAU coefficient is smaller than Regional Original Revenue from Tax, Regional Original Revenue is not from Tax so it can be concluded that there is no fly paper effect on the Padang City Regional Budget or in other words H11 is rejected.

Based on the test results above, it shows that the General Allocation Fund in the Government of the City of Padang is able to increase Regional Original Revenue (PAD) from taxes and non-taxes both before and after the implementation of regional autonomy. These results also indicate that the General Allocation Fund (DAU) in Padang City has a significant role in horizontal equalization, namely by closing the fiscal gap between fiscal needs and the economic potential of the region. So that the Padang City General Allocation Fund (DAU) that takes into account the potential factors of the natural resource sector (primary), the industrial sector and other services (non-primary), and the size of the workforce that has an impact on Local Revenue (PAD) from Taxes and non-taxes. The decision to determine the General Allocation Fund (DAU) which takes into account the needs and acceptance factors in Padang City is important because it will affect the Regional Original Revenue (PAD) from City Taxes and Non-Taxes.

Based on the test results above, it shows that the Padang City Government's Investment has not been able to increase Regional Original Revenue (PAD) from Taxes and Non-Taxes both before and after the implementation of regional autonomy. These results also indicate that the level of investment made by the Government of the City of Padang,

both public investment, private investment, domestic investment, and foreign investment has not been able to have a significant impact on Local Revenue (PAD) from tax and non-tax. This is supported also by more investments in the city of Padang conducted by the Government and the Government-Private. Where government investment is generally done not with a view to profit, but the main objective is to meet the needs of the community. In general, the private sector is not interested in this investment because it requires a very large cost and does not provide immediate benefits, but gradually over a long period of time.

Based on the test results above, it shows that Population Growth in the City of Padang has not been able to increase Regional Original Revenue (PAD) from taxes both before and after the implementation of regional autonomy. This result also indicates that the population growth rate in Padang City which in general is the main resource in the development of an area has not been able to have a significant impact on the Regional Original Revenue (PAD) from Taxes. However, population growth is actually able to increase Non-Tax Regional Revenue (PAD).

Based on the test results above, it shows that the implementation of the Regional Autonomy Policy in Padang City has an influence on the Regional Original Revenue (PAD) from Tax but it is not significant to the non-Regional Original Revenue (PAD). These results also indicate that the implementation of the Regional Autonomy Policy in the City of Padang, which in general is able to have a significant impact on the Local Revenue (PAD) of Taxes. The Central Government gives authority to the Regional Government (Decentralization). In line with the decentralization, aspects of financing are also decentralized. The implication is that the regions are required to be able to finance their own development costs.

Based on the test results above, it shows that the Regional Original Revenue (PAD) from Tax and Non-Tax in Padang City Government will be able to increase Regional Expenditure both before and after the implementation of regional autonomy. This means that the Padang City government is making the best use of its revenue increase for regional spending intended for the maximum welfare of the people. The results showed that the increase in Regional Original Revenue (PAD) from Taxes affected Regional Expenditures. The results of this study are in line with the results of Afrizawati's study (2015) which states that Regional Original Revenue (PAD) significantly influences the amount of Regional Expenditures of seven Regencies / parent cities in South Sumatra. The results of this study are also in line with the results of research from Kurniawati (2010), which states DAU and PAD have a significant positive effect on regional spending.

The flypaper analysis analysis that can be concluded is that although the two independent variables (Tax PAD and Non Tax and DAU) can significantly influence the dependent variable (Regional Expenditure), tax and non-tax PAD turns out to be more influential than DAU where the regression coefficient value of the tax PAD variable and non-tax is greater than the DAU variable regression coefficient. This shows that there is no flypaper effect on regional spending on the realization of the Padang City Regional Budget. This means that the Regional Expenditure policy in Padang before and after regional autonomy is more dominated by PAD than DAU.

5. Conclusion and Recommendations.

From the results of testing the hypothesis that has been carried out it can be concluded as follows:

1) DAU has a significant effect on Padang City Tax PAD 2) Investment has no significant effect on Padang City Tax PAD 3) Regional autonomy policy has a significant effect on Padang City Tax PAD 4) Population Growth has no significant effect on Padang City Tax PAD 5) DAU has significant effect on Padang City's Non-Tax PAD 6) Investment has no significant effect on Padang City's Non-Tax PAD 7) Regional autonomy policy does not significantly influence Padang City's Non-Tax PAD 8) Population growth has a significant effect on Padang City's Non-Tax PAD 9) PAD Tax has a significant effect on Regional Spending in Padang City 10) Non-Tax PAD has a significant effect on Regional Spending in Padang City 11) No flypaper effect occurs on regional expenditure on the realization of the Padang City Regional Budget.

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